

TITLE PAGE

**RELEVANCE AND CREDIBILITY OF AUDIT REPORT IN
PUBLIC SECTOR ORGANIZATIONS IN NIGERIA.**

BY

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THE AWARD OF MASTER OF BUSINESS ADMINISTRATION
(MBA) IN ACCOUNTANCY.**

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CERTIFICATION

The work embodied in this project report is original and has not been submitted in part or in full for any other diploma or degree of this or any other university.

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This is to certify that this project has been approved for the faculty of Business Administration, School of Post Graduate Studies, University of Nigeria, Enugu by the Project Committee of the Department of Accountancy for the Award of Master of Business Administration (MBA) in Accountancy.

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DEDICATION

This project is dedicated to God Almighty who is my Ebenezer. He began a good work in me, he will also finish it. To him be all glory, honour, adoration and majesty. AMEN.

ACKNOWLEDGEMENT

Wish profound joy and gratitude, I sincerely appreciate the Almighty God who had seen me through this divine programme.

My special thanks goes to my supervisor Mr. R.O. Ugwoke for his relentless effort in bringing this project to a successful conclusion. He was always ready for me. May God bless him. My appreciation also goes to some personalities who helped in the successful completion of this programme. They include the vice Chancellor of University of Nigeria, Nsukka, the dean P.G. School, the dean, faculty of management sciences, the head of department Accountancy department and my lecturers a host of others I cannot mention may God bless them.

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MADUIKE M. IFEOMA

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ABSTRACT

Audit report is indeed very relevant to public sector organizations. As such, its credibility is highly needed. When an audit report loses these two qualities; relevance and credibility, it loses its worth and can no longer be relied upon.

The study is oriented towards identifying set objectives for audit report and the implementation of the objective directed towards the growth and operational efficiency of the organization. Audit report should be designed to comply with the statutory requirements of audit and of the organization concerned.

Both primary and secondary data were collected from the University of Nigeria Teaching Hospital Ituku/Ozalla, National Orthopaedic Hospital and the Power Holding Company of Nigeria Plc Enugu Zonal Office. Tables and percentages were used to analyze and interpret the collected data. However, findings from hypothesis testing show that the relevance and credibility of audit report is never in doubt and that audit report when relevant and credible, helps in checking fraud and other irregularities in the organization. However, there exist some lapses on the part of the management which the researcher has made some recommendations for improvement. Other measures that can aid credibility to an audit report were also recommended.

In summary, the researcher does not claim to have carried out an exhaustive study on the subject matter, hence, she has put up some suggestions for further study.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Improved accountability is an important aim for all public bodies. As accountable units to management within the public sector, all public bodies are required to demonstrate that they are conducting their operations as economically, efficiently and effectively as possible. Annual reports and accounts are the main vehicles for discharging this “stewardship” function and enabling parliament, the tax payer and customers to judge whether the body is securing value – for – money in its operations.

Public sector “audit expectations gap” arises due to a lack of technical competencies, the timeliness and relevance of auditor communication, lack of assurance – provider (auditor) independence and a lack of commitment to the public interest.

It is therefore expedient to mention that audit report should be relevant and credible. This means that audit report should

posses the qualities that will make it reliable, trusted and accepted, especially by the users. Furthermore, independence lies at the core of the credibility of an evaluation. According to the Development Assistance Committee (DAC),an evaluation is deemed to be independent when carried out by entities and persons free of control of those responsible for the design and implementation. The Development Assistance Committee also suggests that the independence of an evaluation is characterized by evaluators being able to carry out their task:

- without political influence or pressure from within the organization.
- that evaluators are given full access to all relevant information required for the evaluation.
- and that they have full autonomy in conducting and reporting their findings.

On the contrast, most auditors are not given access to all relevant information. While some public bodies give part of

their information to the auditors, some falsify their records. Some auditors, even when given complete information, do not adhere strictly to auditing guidelines and procedures. Some collect bribe from the management who themselves at times pay less attention to recommendations made in the audit report. All these problems and many more hamper the relevance and credibility of audit report, thus leading to inefficiency in the public sector.

1.2 STATEMENT OF THE PROBLEM

There has been concerted efforts by the government to ensure that audit reports of government institutions like university of Nigeria Teaching Hospital, Ituku/Ozalla, Power Holding Company of Nigeria, Enugu Zonal Office and the National Orthopaedic Hospital is at least reliable and relevant.

However, at most of the time, auditing standard and procedures are sometimes not strictly adhered to, internal control

system may not be clearly defined and complied with, audit reports may not be promptly implemented to letter, some ethical principles in government auditing like auditors independence, objectivity, integrity of the auditor etc may be hampered. These, most often affect the relevance and credibility of audit report, thereby giving room for irregularities like fraud and fraud related activities and hence decreasing the productivity of the institution.

This study is therefore directed towards verifying whether the audit report of Power Holding Company of Nigeria, Enugu zonal office, University of Nigeria Teaching Hospital, Ituku ozalla and the National Orthopaedic Hospital, Enugu is even in doubt, whether the audit standards and procedures expected of statutory audit report in public sector organizations has been compromised and many other findings.

1.3 OBJECTIVES OF THE STUDY

In view of the above, our objectives of study will include

1. To verify whether auditing standards and procedures are adhered to in public sector organizations.
2. To investigate the impact of audit report in public sector organizations like power Holding Company of Nigeria, Enugu Zonal office, University of Nigeria Teaching Hospital, Ituku and National Orthopaedic Hospital as it relates to checking fraud and fraud related activities.
3. To investigate the purpose for which audit report was set to achieve in government owned organizations with particular reference to Power Holding Company of Nigeria, University of Nigeria Teaching Hospital and the National Orthorpaedics Hospital, Enugu.

4. To investigate whether the relevance and credibility of audit report in public sector organizations like the ones mentioned above is even in doubt.
5. To verify whether the audit report of these organizations, show efficiency and economy of operation in the organization.
6. To make recommendations on how the audit report can become relevant and credible.

1.4 FORMULATION OF HYPOTHESIS

HYPOTHESIS I:

H₀: The relevance and credibility of audit report in public sector organization is not in doubt.

H_i: The relevance and credibility of audit report in public sector organizations is in doubt.

HYPOTHESIS II:

H0: The audit standard and procedures expected of statutory audit reports in the public sector organizations has not been compromised.

Hi: The audit standard and procedures expected of statutory audit report in public sector organizations has been compromised.

HYPOTHESIS III:

H0: Adequate measure has not been made to curb fraudulent activities through statutory audit report.

Hi: Adequate measure has been made to curb fraudulent activities through statutory audit report.

1.5 RESEARCH QUESTIONS

The non-performance of public sector organizations in Nigeria has raised a lot of questions. These questions sometimes emanate from fraudulent activities prevalent in these organizations despite independent audit report written on them. Such public sector organizations like Power Holding Company of Nigeria (PHCN) Enugu Zonal Office, University of Nigeria Teaching Hospital Ituku Ozalla and the National Orthopaedic Hospital, Enugu are the core focus of the researcher.

The control questions are therefore:

1. What effect has audit report in public sector organizations like the ones mentioned above?
2. Has audit standard and procedures been adhered to in carrying out audit of these organizations vis-à-vis the resultant audit report?

3. To what extent has audit report written on Power Holding Company of Nigeria (PHCN) Enugu Zonal office, University of Nigeria Teaching Hospital Ituku Ozalla and the National Orthopaedic Hospital helped to check or curb fraud?
4. What are the measures put in place to enforce the implementation of the recommendations of audit report in government owned organizations like the ones under our focus?

1.6 SIGNIFICANCE OF THE STUDY

The significance of this study can be viewed from two major perspectives - practical and academic.

PRACTICAL SIGNIFICANCE:

The study is very timely especially today that all hands are on deck to enhance the development and growth of Nigeria's

economy. This study will be of immense benefit to public organizations and the organized private sector to:

1. Determine the impact of audit report in public sector organizations, especially as it relates to checking fraud and fraud related activities.
2. To auditors in general, the study is necessary to expose the rudiments of improved auditor performance and efficiency.
3. The study will expose the factors that will enhance a healthy, relevant and reliable audit report, especially as it relates to audit procedures and standards.
4. The study will also try to expose the management to the need for prompt and total implementation of audit report.

ACADEMIC SIGNIFICANCE:

In the academic arena, this study will prove to be significant in the following ways:

1. It will contribute to the enrichment of the literature on audit report.
2. It will also throw more light on the ethical standards of audit which includes integrity, independence, objectivity etc.
3. The study will suggest ways of enhancing a reliable and relevant audit report.
4. It will serve as a body of knowledge to be referred to by researchers.

1.7 SCOPE AND LIMITATION OF THE STUDY

This study is restricted to public sector organization with particular reference to Power Holding Company of Nigeria (PHCN) Enugu Zonal Office, University of Nigeria Teaching Hospital, Ituku Ozalla and the National Orthopaedic Hospital, Enugu.

The study shall cover both internal and external audit. The time range for the completion of this research work is assumed to be two months. Data gathering was limited to library facilities,

information from the organization's journals and other related documents, questionnaires, internet etc.

The study focuses upon the reporting standards that governs the form and content of the auditor's report accordingly, attempts to deal with audit procedures or techniques.

1.8 DEFINITION OF TERMS

- Audit can be defined as an independent examination of and expression of opinion on the financial statement of an organization by an appointed auditor in pursuance of that appointment and in accordance with any relevant law and regulations.
- Engagement letter is defined as a letter addressed by an auditor to his client(s) defining the precise scope and nature of the works to be taken.
- INTERNAL CONTROL: This is the whole system of controls, financial or otherwise, established by management, in order

to secure, as far as possible, the accuracy and reliability of the records, run the business in an orderly manner and safeguard the company's assets, its objective being the prevention or early detection of fraud and errors. It may include internal auditing.

- **MANAGEMENT:** This is the person or persons vested with the responsibility of planning, organizing, commanding, coordinating and controlling the organizational resources (human and material) in order to achieve the objective for which the organization is established.
- **WATCHDOG:** A person or organization that tries to guard against stealing, wasteful use of public money, undesirable practices, etc.
- **AUDITOR** may be defined as an accountant who has undergone recognized professional course and is a member of one of the recognized accountancy bodies resident in

Nigeria and who is carrying out a professional accountancy practice.

- AUDITING STANDARDS may be defined as those standards of auditing which have been issued by the council of institute of chartered Accountant of Nigeria (ICAN) prescribing the basic principles and practices which members are expected to follow when carrying out an audit.
- AUDIT REPORT may be defined as the opinion expressed by the independent audit after the audit exercise.
- INTERNAL AUDITORS may be defined as auditors who are members of staff of an organization.
- EXTERNAL AUDITORS may be defined as independent auditor who are not members of staff of the organization but are appointed either by government or the shareholders a company.
- CREDIBILITY means “believable or worthy of belief” (Canadian Oxford Dictionary).

- INDEPENDENCE is the state of being impartial and free from bias and conflicts of interest – This is the cornerstone of auditing. This definition is accordant to Hornby et al (1974:587).

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CHAPTER TWO

REVIEW OF RELATED LITERATURE

This chapter will be dealing with two issues viz; the historical development of audit report and the aspect of audit report.

The theoretical aspect focuses on the ethical principle in the government auditing, the role of auditing in public sector

governance, the scope of audit report, the nature of audit report and the internal control system.

Hence, the credibility of audit report depends to a great extent on the se factors above, and if any of the user should doubt any of standard requirement, complete reliance on the audit may be questioned. Therefore, since standards may affect an audit and subsequently the audit report, they need to be examined in order to see the extent of there influence. The auditor's standard of examination and evaluation includes adequate planning and supervision, compliance with regulations and evidence of the work carried out.

In summary, it becomes apparent that the introduction and development of the audit report in commerce , industries, and public sectors organization is the beginning of relevance and credibility on the organization.

2.1 HISTORICAL DEVELOPMENT OF AUDIT REPORT

Originally, individual concern have owned and financed by either a sole proprietor or partnership. Ordinarily, under this type of organization, the finance and credit available was limited to that which owners themselves could provide. Hence, the capital available for industrial expansion was strictly limited.

However, the introduction of the joint stock company greatly widened the possibility of raising capital for industrial expansion.

As the liability of each shareholder was limited, it was possible to offer share to the public and thus making more capital available for the industrial expansion.

Thus the joint stock company, later took the place of the small privately owned business concern under the form of organization. In organizational set-up, ownership was divorced from management (separate entity concept of accounting). The shareholders who were the owners of the organization delegate the management of the undertaking to the Board of Directors, and periodically, the Board submits the accounts of the company to the shareholder for them to assess the financial position of the organization in which they invested their money. The financial statement as we know, helps the shareholder to know the possibility of the company. However, the issue here is not whether the organization is making profit or not, but what will make the shareholders to have confidence that the financial statement so presented to them is authentic. Since there was divorce between the management and the owners, it then became necessary to protect the interest of the shareholders from extravagant, inefficient, inaptitude and sometimes deceitful

performance of the steward. At this juncture, the need then arose for some means by which the shareholders might be satisfied that the account presented to them by the Board of Directors was not distorted.

This then gave rise to the practice of appointed auditors whose duty is to verify on behalf of the shareholders, the account presented by the Board of Directors and the report thereon. Obviously, it is impossible for the shareholders to individually, examine the account of the company. They then jointly appoint an auditor to act for them, the auditors has no professional qualifications. Subsequently, they could not carry out an effective audit which rendered the appointment uneconomical.

However, it was the companies Act of 1968 low to know as companies and allied matters Decree (1990) that first made it legally compulsory for every company to appoint independent auditors, whom we now know and even make provision for their remuneration. It was undoubtedly, the rapid increase in the

membership of the joint stock company that took place at that time and the compulsory professional audit provided in the companies Act of 1968 that gave great impetus to the development of the accountancy profession. The audit report verifies the loopholes in the submitted account. The audit report is not a certificate to the effect that the accounts are true and free from any error. Accordingly, the auditors merely expresses his opinion on the accounts presented to him for audit would have to state in the report whether in his opinion, the financial statement show a true and fair view of the companies financial transactions, profit and loss etc. According to Ubesie (200:66), "the auditors report which is the end result of an examination of financial record for a given period is an expression of the auditors opinion on the record so examined".

As may be seen later in this study, the audit report is not an end in itself but a means to an end. This was revealed from the fact that audit report must have some objectives and these objectives

and recommendation is for the improvement of the entity and the performance of the organization. Any audit without a report at the end is not an audit and is worthless.

2.2 THEORITICAL REVIEW: INTRODUCTION

Audit report is very relevant to public sector organizations. Government and other interested parties need to know how the organization money is spent. However, it is also of utmost important that this audit report be credible ie "believable" "or worthy of belief". The people whom the report is being addressed as well as other interested parties should at least have confidence in the report. For this confidence to be enforced in the audit report, there need for audit to abide by the ethical principle of the government auditing. Auditors are expected to conduct their work in a generally accepted government auditing standard to follow ethical principles apply in preserving auditors independence taking thigh quality work and following the applicable standard cited in the audit report.

Integrity and objectivity are maintained when auditors perform their work and make decision that are consistent with the broader interest of those relying on the auditors report, including the public.

2.2.1 ETHICAL PRINCIPLES IN GOVERNMENT AUDITING

The ethical principles contained in the following section provide the overall framework for application of general acceptable government auditing standard, including general standard, field work standard, and reporting standard. Each principle is described rather than set fort as a sense of requirement, so that auditing can consider the facts and circumstances within the framework of these ethical principle. Other ethical requirement or codes of professional conduct may also be applicable to auditors who conduct audit in accordance with generally accepted auditing standards.

The ethical principles that guide the work of auditors who conduct audit in accordance with generally acceptable government auditing standards are:

- (a) the public interest
- (b) Integrity
- (c) Objectivity
- (d) Proper use of government information, resources and position.
- (e) Professional behavior.

THE PUBLIC INTEREST

The public interest is defined as the collective well-being of the community of people and entities the auditors serve. Observing integrity, objectivity and independence in discharging their professional responsibilities, assists audits in meeting the principle of caring the public interest and honoring the public trust. These

are fundamental to the responsibility of auditors and critical is the government environ.

A distinguishing mark of an auditor is acceptance of responsibility to serve the public interest. This responsibility is critical when auditing in the government environ. Generally, accepted government auditing standard embody the concept of accountability for public resources, which is fundamental to serving the public interest.

INTEGRITY

Public confidence in government is maintained and strengthened by auditors performing their professional responsibility with integrity. Integrity includes auditors conducting their work with an attitude that is objective, fact-based, non-partisan, and non-ideological with regard to audited entities and users of auditor's reports. Those charged with governance, and the individual

contracting for or requesting the audit are expected to be honest, candid, and constructive.

Making decision consistent with the public interest of the program or activity under audit is an important part of the principle of integrity. In discharging their professional responsibilities, auditors may encounter conflicting pressures from management of the audited entities, various levels of government, and other likely users. Auditors may also encounter pressure to violate ethical principle to inappropriate achieve personal or organizational gain. In resolving those conflicts or pressures, acting with integrity means that auditors place prionly on their responsibility to the public interest.

According to Aguolu Osita (2008:386), a professional accountant should not be associated with reports, returns, communications or other information where they believe that the information:

- (a) contains a materially false or misleading statement.
- (b) Contains statement or information furnished recklessly.

(c) Omits or obscures information required to be included where such omission or obscurity would be misleading.

**PROPER USE OF GOVERNMENT INFORMATION,
RESOURCES AND POSITION.**

Government information, resources, or position are to be used for official purpose and not inappropriately for the auditors personal gain or in manner contrary to law or detrimental to the legitimate interest of the audited entities or the audit organization. This concept include the proper handling of the sensitive or classified information or resources.

In the government environ, the publics right to the transparency of government information has to be balanced with the proper use of that information. In addition, many government programs are subjected to laws and legislations dealing with the disclosure of information. To accomplish this balance, exercising discretion in the use of information acquired in the course of auditor's duties is

an important part in achieving this goal. Improperly disclosing any such information to third parties is not an acceptable practice.

As accountability professionals, accountability to public for the proper use and prudent management of government resources is an essential part of auditor's responsibilities, protecting and conserving government resources and using them appropriately for authorized activities is an important element in the public's expectation for auditors.

Misusing the position of auditor for personal gain violates auditor's fundamental responsibilities. An auditor's credibility can be damaged by actions that could be perceived by objective third party with knowledge of the relevant information as improperly benefiting an auditor's financial interest or those of an immediate or close family member, a general partner, an organization for which the auditor serve as an officer, director or trustee, or employee, or an organization with which the auditor is negotiating concerning future employment.

OBJECTIVITY AND INDEPENDENCE

The credibility of auditing in government sector is based on auditor's objectivity in discharging their professional responsibilities. Objectivity includes being independent in fact and appearance when providing audit and attestation engagement, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflict of interest. Avoiding conflicts that may, in fact or appearance, impaired auditors objectivity in performing the audit attestation engagement is essential for retaining credibility. Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stake holders in the context of auditors responsibility to the public.

According to Aguolu (2008: 391), the underlying requirement for any audit engagement is the independence of the auditor. The auditor is expected to be independent both in theory and in practice, in his own attitude and his approach to work where the independence of the auditor is impaired in the course of his work,

he should resign and give details of this in his representation to his members.

According to Eze (2008:146), a member of a profession has a duty to be objective in carrying out professional duties and should maintain an independent approach to that task and avoid conflict of interest.

Independence is essential for the auditor to be able to express an objective opinion in his report. Objectivity is critical to the report of the auditor since his report is relied upon by the public as the opinion of a specialist with high integrity. The independence of the auditor will be in doubt if he collects greater percentage of his income.

- Collects gift from his clients.
- Collects greater percentage of his income from one client or a group of closely connected clients.
- Has personal relationship like marital relationship, social or fraternities, business relationships etc with his client.

- Grants loan or obtain loan from a client or
- Holds share in the company to which he is the statutory auditor etc.

The institute of internal auditor, in her statement on qualifications of auditors in 1957, stated that an auditor is required to be sufficiently independent so that his opinion, conclusions, judgment, and recommendation would be impartial. Independence is the cornerstone of auditing. Anything that impedes an honest, straightforward and sincere approach to the performance of an audit will reduce public confidence.

Emile (1994:343) stated that "effective independence of the auditors means the independence of mind and not financial independence

In order to strengthen the auditor independence and ensuring objectivity, the companies and allied matters decree (CAMD) 1990 sec 358 and professional accounting bodies (IIA) have made some recommendations such as the qualification of the auditor in

terms of state of mind and equally not to borrow money from a client as this is to avoid a situation where he will find himself acting in a biased manner.

For the objectivity of the auditor, he must base his opinion on evidence that is verifiable. He must never pass any judgement unless he understands its nature and is absolutely satisfied that it is in order. If not, he must make intelligent and exhaustive enquiries until he has ascertained the exact state of affairs.

In summary, an auditor in practice is not only being believed but must be seen in the performance of his duties to be independent and free from financial or commercial involvements with or in the affairs of his client.

PROVISIONS ENCOURAGING AUDITORS INDEPENDENCE.

Companies and Allied Matters Act (CAMD) 1990 provides the following information to encourage the independence of the auditor:

- i. The Companies and Allied Matters Decree provides that auditors should be appointed by shareholders and not by the directors. This makes the auditor to become independent of the directors.
- ii. The CAMA highlights that removal of auditors is only possible by a resolution at the general meeting by shareholders. The auditor has a right to attend such a meeting to defend himself and to make a written representation on the matter to the shareholders.
- iii. CAMA provides that an employee of a company cannot be an auditor to the company. Also any person who is a partner or in the employment of an officer of the company cannot serve as auditor. This provision is vital as it ensures the auditor's independence in relation to the organization on whose accounts he expresses opinion.
- iv. The companies and Allied Matters Act empowers the auditor to obtain all the necessary information considered important

for his work from the officers of the company. He also has access to all the records and books of the company.

- v. Auditors are empowered to attend any general meeting of the company including meetings at which his term of office will expire or even at which his removal will be discussed.

PROFESSIONAL BEHAVIOUR

High expectations for the auditing profession include compliance with laws and regulations and avoidance of any conduct that might bring discredit to auditor's work, including actions that would cause an objective third party with knowledge of the relevant information to conclude that the auditor's work was professionally deficient. Professional behaviour includes auditors putting forth an honest effort in performance of their duties and professional services in accordance with the relevant technical and professional standards.

Aguolu (2008:390) in his explanations said that professional accountants should be honest and truthful and should not:

- A make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or
- B make disparaging references or unsubstantiated comparisons to the work of others.

Millichamp (1984:193) states that "the quality of audit work and related reports depends on the competence with which the auditor makes his tests, presents his findings, conclusions and the followings of the previous issues.

2.2.2 PUBLIC SECTOR GOVERNANCE

Public sector governance encompasses the policies and procedures used to direct an organization's activities to provide reasonable assurance that objectives are met and that operations are carried out in an ethical and accountable manner. In the

public sector, governance relates to the means by which goals are established and accomplished. It also includes activities that ensure a government's credibility, establish equitable provision of services, and assure appropriate behaviour of government officials-reducing the risk of public corruption. It is however pertinent to mention that one of these activities is auditing.

We shall now look at the role and importance of auditing in a public sector governance.

2.2.3 THE ROLE AND IMPORTANCE OF AUDITING IN PUBLIC SECTOR GOVERNANCE: INTERNAL AND EXTERNAL AUDITING IN A GOVERNMENT CONTEXT.

This paper addresses the role of government auditing including both internal and external government auditing. The key point, however is that government audit functions must be configured appropriately to enable governments and government

entities to fulfill their duty to be accountable to the citizens, while achieving their objectives effectively, efficiently and ethically.

The first section will be briefly discussing the role of auditors as prescribed in the statutes and the role of auditors as perceived by the users of the audit report.

THE ROLE AUDITOR AS PRESCRIBED IN THE STATUTES.

The companies Act of 1968 now companies and Allied Matters Decree (1990) clearly defined the role of modern financial accounting and auditing as follows:

1. Every company was required to present annually to its shareholders a profit and loss account in relation to the previously required balance sheet. A report was to be given by the auditor on the reliability of both statements.
2. Schedule eight of the companies Act contained a list of items of information that every company was to disclose where relevant, in the financial statements.

3. The appointed auditors duties, powers and responsibilities were hereby clearly laid down according to statutes as follows:

- i. weather the directors had kept proper records of accounts;
- ii. Weather such accounts agreed with books and records.
- iii. Weather returns from branches not visited were adequate for the purposes of the audit; and
- iv. Weather in his opinion, the accounts gave a true and fair view of the company profitability and state of affairs and the financial statements were presented in a form which complied with statutory requirements.

THE ROLE OF AUDITORS AS PERCEIVED BY THE USERS OF THE AUDIT REPORT.

The various users of financial statements and audit report need such statements for making business and economic decisions. Investors need accounting information to determine

whether to buy or hold shares. Shareholders need such informations to enable them asses the ability of the enterprise to pay dividends. Employees are interested in information which enables them to assess the ability of the enterprise to pay salary/remuneration, retirement benefits and provide employment and promotional opportunities. Lenders are interested in information that enables them assess the character, capability and collateral of intending borrowers as well as their ability to pay back capital and interest as they fall due. Government and their agencies require information to regulate the activities of enterprises, reappraise politics and as the basis for national income and similar statistics.

To be useful, financial information must possess the qualities of relevance, reliability and timeliness. Information is said to be relevant when it influences the economic decisions of the user by helping him evaluate past, present or future events or in confirming or correcting his past evaluations. According to

Inyiama, reliability on the other hand, is the quality of information that makes it free from material error and bias and capable of being depended on by users to represent that which it purports to represent. If there is undue delay in the reporting of financial information, it may lose its relevance.

2.2.4 THE IMPORTANCE/BENEFITS OF AN AUDIT IN AN ECONOMY.

The importance of an audit in an economy cannot be overemphasized. Let us now consider the following benefits.

1. Authenticity and Reliability of Accounts

According to Eze (2008:240), the accounts are regarded as authentic, correct and reliable as a true and fair indicator of the state of affairs of the organization. The rationale behind this is that the auditor did not partake in the preparation of accounts, and his opinion is an independent one, arrived at

after an objective examination of all the relevant evidence in relation to the financial statement.

2. Up-Dating Accountancy work

With the help of audit, accountancy work is updated, thus, highlighting the causes of fluctuations. In the course of an audit, any weakness in the account is revealed promptly so that necessary corrective action could be taken.

3. Employees efficiency and honesty is impaired.

The impact of audit on the employee of the employee of the organization is usually favourable as regards to efficiency and honesty. The knowledge that an independent person will be examining the books results in fewer errors in the accounting process and reduces the likelihood of misappropriation of assets by employees. The probability that management will be more truthful and forthright in its representations is increased since its financial statement will be verified.

4. Tax Assessment and compensation Claims

When an auditor has certified that an accounting statement is true and fair, the statement gains credibility and will be more acceptable and reliable to any person using it. For example, income tax assessment compensation claims following loss by fire and theft, proposed sale, extended credit facilities and bank borrowing etc.

2.2.5 **WAYS OF IMPROVING AUDIT WORK IN**

GOVERNMENT MINISTRIES AND PARASTATALS

The need for efficient and effective audit work in the public sector is of utmost importance. This is because audit assist in guiding the affairs of the institution, especially as it relates to financial matters. Some of the ways audit can be improved includes:

1. Adequate funding:

Quality audit work needs funding as the benefit therein is worth the spending. Government should endeavor to allocate adequate fund timely to the audit department to enable them live the service of qualified and experienced workers for effective and conscientious audit work in our public sector organization.

2. Regular Training of Staff:

Lack of trained staff affect audit work in our public services. There is need to organize workshops or trainings for staff of various grades in the audit and account department at intervals. This will enable them to get acquainted with The current principle and standards of audit work. This training should be pursued, both on the job and the institutions of higher learning within and outside the country.

3. Positive Attitude to Audit Queries:

The attitude of some top government officials towards audit queries is not encouraging. Some of them find it difficult to respond adequately and promptly to audit queries. Thus, observed errors cannot be corrected. Efforts should be made to ensure that ministries, especially government organizations should tackle their many outstanding audit queries and inspection report more seriously. This will enhance the audit work.

4. Timely Submission of Annual Financial statement:

Annual financial statements should be submitted timely within six months of the close of the financial year to pave way for quality timely audit work to be conducted on them and subsequent timely and relevant audit report made.

5. Effective and efficient accounting system:

According to Eze (2008:245), the standard of accounting in our ministries, departments and boards leave much to be

desired. Certain errors which ought to have been avoided if there is efficient workers who understands their work and the purpose of maintaining adequate accounting records are not avoided. The result is that the audit department is compelled to examine every item of transaction, a task which is almost impossible considering the staff strength. Hence, there is the need for effective and efficient accounting standard in our government bodies. This also calls for training, strict supervision of staff and having a more organized internal audit unit.

6. Effective internal control system:

There should be effective internal control system in the organization. This is a situation whereby staff duties are arranged in such a way that one person job is being checked by another and no one person is allowed to carry out a transaction from the beginning to the end. Junior staff who are assigned cash and store responsibilities should be

strictly supervised. Internal audit unit, whereby they exist, should be manned by trained staff for efficiency and effectiveness.

It is pertinent to note that adequate internal control in an organization, reduces drastically the incidence of fraud and fraud related activities.

7. Independence:

Efforts should be made to ensure that the independence given to auditors in the public sector is sufficient for efficient, effective and conscientious audit work.

2.2.6 THE SCOPE OF AUDIT

Audit report varies in scope according to the type of audit involved. Ubesie (200:33) stated that “the scope of work to be performed by the internal auditor is determined by the external auditor is prescribed by law”. However, generally the work of an auditors on accounting matters can be classified as follows:

- (a) Examination of system of internal control for both soundness in principle and effectiveness in operation.
- (b) Examination and checking of accounting records and statements.
- (c) Verification of assets and liabilities.
- (d) Observation and inquiries on relevant matters.
- (e) Making of statistical comparisons (vouching) and such other measures as may be judged necessary.

Auditors aim at ensuring that the financial statement presented to the shareholders show a true and fair view of s an organization state of affairs as well comply with the requirement of companies and allied matters Decree (CAMD) 1990.

In the discharge of his duties, it of utmost importance to note that an audit work does not entail the preparation of the accounts at all, but donates something much wider the examination by the auditor of the balance sheet, profit and loss account or income statement and cash flow statement prepared by others so as to

enable him express his opinion that the above mentioned statements have been properly drawn up to show a true and fair view of the statement of the result of a particular organization and that it also complies with the relevant statutes ie companies and allied matters Decree(CAMD)1990. The integrity of auditors is of absolute necessity. Otherwise, it will be difficult for the user to rely on the auditors report. Section 360 (2) and section 14 (b) of CAMD demands that if the auditor fails to obtain all information and explanations, which tom the best of his knowledge and belief are necessary for the purpose of his audit, he shall state the fact in his report.

The detection of irregularities is however vital. Nevertheless, it remains the responsibility of the management to detect irregularities. However, the auditor can provide a valuable assistance to the organization in this area as this provide him (auditor) with the opportunity for a service to the management in

pointing out deficiencies in existence in the internal control and making necessary recommendations for improvement.

2.2.7 THE NATURE OF AUDIT REPORT

As earlier said, it is the duty of the management to prepare the financial statement in accordance with the relevant law while it is the duty of the auditor to express a valid opinion on the statement. The companies and allied matters Decree (CAMD) 1990 states that an auditor is obliged to state in his report, whether in his opinion, the account:

- (a) Show a true and fair view and
- (b) Comply with the requirements of relevant sections of the law.

The fact requires the auditors report to contain statements on such matters like:

- Whether proper books of account have been kept.
- Whether proper returns have been received from branches not visited by the auditor

- Whether the financial statements are in agreement with the books and returns.
- Whether all information and explanations necessary for the audit have been obtained.
- Whether the financial statements comply with the relevant statutes and other pronouncements.

The opinion expressed in the auditor's report may be qualified or unqualified and must be clear, not involving any ambiguity.

UNQUALIFIED OPINION

The auditor expresses an unqualified opinion when he is satisfied with all the materials in respect of the matters dealt with when carrying out the review and assessment of the financial statements. This means that the financial statements show a true and fair view and comply with the requirements of the relevant law.

According to Ubesie (200:66) an auditor issues an unqualified opinion when he is satisfied that the records examined by him presents a true and fair view of the financial transactions under review.

SPECIMEN OF AN UNQUALIFIED AUDITORS REPORT
INDEPENDENT AUDITORS REPORT

To the members of the XYZ limited, Report on the financial statement of the year ended Dec 31, 20 x9.

We audited the financial statement which comprises the balance sheet as at Dec 31, 20 x9, and the income statement, statement of changes in equality and cash flow statement for the year and then ended, and a summary of significant accounting policies and other explanatory notes.

RESPECTIVE RESPONSIBILITIES OF THE MANAGEMENT AND THE AUDITORS

It is the responsibility of the management to prepare a financial statement which shows a true and fair view and in accordance with the relevant law and our own responsibility to express an opinion on these financial statement based on our audit.

BASIS OF OPINION

We conducted our audit in accordance with international standard of auditing. Those standard required that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statement are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amount and disclosures in the financial statements. We received all the information and materials necessary for the audit. We believe the evidence we

have received is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statement give a true view of the financial position of the company as at Dec 31, 20 x 9, and of its financial performance and its cash flow for the year then ended in accordance with the international financial reporting standards and comply with the law of companies and Allied matters Decree.

Lagos, Nigeria

Jan 1, 20 x 9

Omega Partners

Chartered Accountant

QUALIFIED AUDITORS REPORT

An auditor issues a qualify opinion when he is not satisfy with any matter in respect of the assignment.

According to Nwoha (2000:24), "if the auditor is not satisfied upon any point, or there is any information that, in his opinion should be placed before the shareholders, he must qualify his report accordingly, and make such matters clear therein. This is a serious case. Hence, the auditor must avoid ambiguity. He therefore employs such terms as "subject to opinion", "disclaimer of opinion", "adverse opinion" or except opinion to make his points clear.

An auditor can therefore qualify a report based on uncertainty or disagreement.

Uncertainty

Some matters of uncertainty like the recoverability of debts, the continuity of the company, the recoverable value of damaged or

obsolete stocks may not be known as at the date of the balance sheet. Hence the auditor cannot give a valid opinion as to their effect on the financial statement as at that date. For example, For obsolete or damaged goods of a company, the auditor does not yet know the amount of goods damaged or obsolete, hence he cannot make a valid opinion. In this case, the auditor issues either;

- a disclaimer of opinion qualification: Here, the auditor has been unable to obtain sufficient information to support his opinion and hence is unable to form an opinion. He therefore says that he is yet to form an opinion on the true and fair view of the financial statement.

- give a "subject to opinion" qualification: This means the auditor is of the opinion that the financial statement can only show a true and fair view if the matter(s) referred to in the financial statement are(is) correct ie The auditor considers the matter material.

Disagreement

Disagreement can arise when the management report does not agree with the report of the auditor. The auditor, in this case can either;

-give" an adverse opinion" qualification showing that the financial statement do not give a true and fair view. This usually applies when there is a complete departure from acceptable accounting practices such as failure to comply with relevant laws and inappropriate accounting policy.

-give an "except opinion" report that the financial statement show a true and fair view except for the matter referred to.

SPECIMEN OF A QUALIFIED AUDIT REPORT

INDEPENDENT AUDITOR'S REPORT

To the members of XYZ Limited

Report on the financial statement for the year ended December 31,20x9.

We have audited the financial statement which comprise the balance sheet as at December,31, 20x9, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

RESPECTIVE RESPONSIBILITIES OF THE MANAGEMNT AND AUDITORS.

It is the responsibility of the management to prepare a financial statement which show a true and fair view and is in accordance with relevant laws and our own responsibility to express an opinion on the financial statement based on our audit.

BASIS OF OPINION

We conducted our audit in accordance with International Auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An

audit is an examination, on a test basis of evidence supporting the amounts and disclosures in the financial statements. We believe that our audit provides us with a reasonable basis for our opinion.

As explained in NOTE 3, no provision has been made against an amount of five million naira (#5,000,000.00) only owing by the company, which has been placed in liquidation since the year. The liquidator has indicated that unsecured creditors are unlikely to be paid and in our opinion, provision should be made.

OPINION

Except the failure to provide for the amount described above, in our opinion, the financial statements which have been prepared under historical cost convention give a true and fair view of the company's transactions.

Accra Ghana

30th June, 20X9

Alpha Partners

Chartered Accountants

2.2.8 QUALITIES OF A GOOD AUDIT REPORT

As can be seen from the above, a good audit report should seek

to contain the following basic attributes/qualities:

- 1 It should identify those to whom it is addressed. EG "Report of the Auditors to the members of ABC company PLC".
- 2 It should clearly identify the financial statements audited. It should be noted that section 334(2) of CAMA1990 defines financial statements as including:
 - A Statement of accounting policies
 - B The balance sheet as at the last date of the year
 - C Profit and loss account for the year.
 - D Notes on the accounts
 - E The auditors report
 - F The directors report

- G A statement of cashflow
 - H A value added statement for the year
 - I A five year financial summary
 - J Group financial statement for holding companies.
3. It should state the auditing standards applied.
 4. It should refer to any matter prescribed or the relevant legislations or other requirements. For example, CAMA 1990, BOFIA 1991 AND THE Insurance Act 1997.
 5. The report should state whether or not the financial statements give a true and fair view.

INTERNAL CONTROL SYSTEM

This section shall be dealing extensively with the definition of internal control, its classifications and other related matters.

Internal control forms the bedrock of auditing both from the point of view of management and the auditor.

DEFINITION

Internal control is the whole system of controls, financial or otherwise, established by management, in order to secure, as far as possible, the accuracy and reliability of the records, run the business in an orderly manner and safeguard the company's assets, its objective being the prevention or early detection of fraud and errors.

A BRIEF EXPLANATION OF THE DEFINITION

“The whole system of control, financial or otherwise”.

Internal control is not only concerned with the financial aspect of the organization. It is also concerned with non-financial matters like:

- The method of authorizing/approving transactions
- The method of processing transactions prior to recording
- The method of supervising or controlling operations.

-The method of designing positions and allocating responsibilities and delegating authority

-The method of physically controlling assets.

-The method of recognizing assets and accepting liability.

“Established by management”:

This shows that for any procedure to become a system of internal control, it must be established or approved by management. This proves that auditors do not establish internal controls but may recommend it.

“to secure the accuracy and reliability of records”

Every good system of internal control must secure the accuracy and hence, reliability of the records. This is because management use information from the records in making decisions. According to Onovo, the more accurate and reliable the records, the better the management decision and efficiency.

“to run the business in an orderly manner”

According to Economics, we are made to understand that resources are scarce and hence, there is need for efficient and orderly application of the resources in order to maximize returns. This involves having a defined procedure for carrying out every aspect of the transactions, reviewing the work done by every staff in order to control their performance imposing sanctions where necessary, etc

“to safeguard the assets”

The company’s assets ought to be safeguarded against loss or damage due to pilferage, exposure to bad weather, rough handling, improper usage, waste and incorrect recording.

“the prevention or early detection of fraud and errors”

A good system of internal control, as its primary objective, should minimize the incidence of fraud and errors.

CLASSIFICATION OF INTERNAL CONTROL

Aguolu (1998:59) classified internal control as:

A. Method of keeping books and records

- i The records should be easy to understand and hence minimize risk of error.
- ii. Books should be kept in permanent form. For example, it should be typed or written in ink.
- iii. Books should be balanced at regular interval.

B In-built control techniques

- i. Pre-numbering of documents: Documents should be numbered in sequence on printing to enhance control. Investigation and explanation should be called for in case of detected missing numbers.
- ii Authorization: Responsible officers should check and sign every document before processing.

- iii Independent review of work: This involves an independent review of the work of detecting errors.
- iv Matching of documents: Related documents should be matched. This technique provides both completeness and accuracy.
- v Batch Totals: A total is established of documents to be processed at a time. Such value total is checked and agreed with the processed total after the processing. By this, processing error is localized and the completeness of processing is ensured.
- vi Control Accounts: Value totals are entered into control accounts while the details are recorded in subsidiary account. Where the control account is reconciled regularly with the subsidiary records, the accuracy of processing is ensured.
- vii. Direct Verification: This involves the physical verification of assets and liabilities that are recorded in the books. For

example, stocks or fixed assets. It also includes the direct agreement of balances with third parties. Such controls ensure the validity of account balances.

c. **Management Techniques**

While the first two classifications of controls are generally referred to as basic controls, “management techniques” deals with disciplines over basic controls. These are the various techniques which management may adopt in order to ensure that the basic controls are functioning. They are four, viz;

- Custodial controls
- Supervisory controls
- Separation of duties
- Management structure

1. **Custodial Controls:** This control ensures that assets, eg stock, cash or security documents like cheques, L.P.Os are maintained securely. They may involve:

- Suitable physical arrangements for items of stock to easy identification and checking.
- The use of safes and enclosed barriers for cash and security documents.
- Locked stores for sensitive stock items
- The installation of fire devices for prevention of fire outbreak.
- The prevention of access to the stores for unauthorized persons.
- The protection of certain stocks against rain or rough weather.
- The erection of concrete walls or wire fencing for company premises.

2. **Supervisory Control:** This is the same with authorization controls whereby the job performed by one staff is subject to the approval of a more responsible official. It may involve direct supervision by superior officials, checks carried out on

the job of subordinates, authorization from a more responsible official for a job to be performed, direct controls to enforce the performance of a job, follow-up action to ensure that a specified corrective action is carried out in cases where an established control fails to operate etc.

3. **Separation of Duties:** There should be a well defined segregation of duties between departments and individuals, such that no one person handles a particular transaction from the beginning to the end. Segregation of duties should be distinguished from division of duties. The segregation of duties for adequate internal control, is designed to ensure that no one person is in a position, both to misappropriate an asset and conceal his action by falsifying the relevant records. Hence, for each transaction, there should be a separation of the transactions into:

- Initiation or authorizing a transaction.
- The physical custody and control over the resultant assets.

- The recording of the transaction.

As part of the separation controls, arrangement should be made to rotate the duties of staff so that no one person deals with one aspect of the work permanently, designing the authority and responsibility of each official or department. Specific duties should be assigned to staff with the relevant skill and competence. To prevent bottlenecks in the procedures, a definite arrangement should be made for staff to take their annual vacation and to replace those who are absent.

2.2.10 SUMMARY OF RELATED LITERATURE

Review of related literature brought into focus silent facts that will enhance the operation of the public sector organizations such as Power Holding Company of Nigeria (PHCN) Enugu zonal office, Okpara Avenue, Enugu, University of Nigeria Teaching Hospital, Ituku Ozalla and the National Orthopaedic Hospital, Enugu.

The authors of the literature reviews were of the opinion that the relevance and credibility of audit report in public sector organization cannot be compromised if public confidence on the organization can be guaranteed.

Lack of positive public confidence resulting from inefficient operation of the organization may lead to bad image for the enterprise which consequently may eventually weigh down the corporate objective of the organization.

The review stressed the necessity of employing a combination of some management control systems to enhance

the quality and credibility of auditor's report. In other words, that management should effectively use all its control, and mechanisms such as internal checks, internal audit, internal control and management control systems as well as external auditors in the examination of the financial statement of the organization as required by law.

In conclusion, the authors are of the view that with a relevant and credible audit report, fraud and fraud related activities will be minimized if not eliminated from the operations of public sector organizations like Power Holding Company of Nigeria (PHCN), University of Nigeria Teaching Hospital and the National Orthopaedic Hospital.

CHAPTER THREE

3.0 METHODOLOGY

3.1 RESEARCH DESIGN

This research will employ the survey method of research design in the study of the staff of the Power Holding Company of Nigeria (PHCN) Enugu Zonal office, the University of Nigeria Teaching Hospital (UNTH) and the National Orthopaedic Hospital Enugu. The researcher finds it appropriate to use this method as it will suit our purpose for this study.

3.2 SAMPLE SIZE

The population for this study is the staff of the University of Nigeria Teaching Hospital Ituku Ozalla, Power Holding Company of Nigeria, Enugu zonal office and the National Orthopaedic Hospital, Enugu. For the purpose of the study, the researcher decided to use a sample of the entire staff of these institutions. The sample is composed of Junior and senior staff of audit and

Accounts department with others in the senior administrative cadre in other departments that have direct link with management control. They are estimated to be about seven hundred (700) in number. The sample size used for the research was determined using Yaro Yamani's formula as shown below:

$$n = \frac{N}{1 + n(e^2)}$$

Where n = sample population

e^2 = margin of error or allowable error

Given that $N = 700$

$e = 5\%$

1 = constant

Substituting

$$n = \frac{700}{1 + 700(0.05)^2}$$

$$n = \frac{700}{2.75}$$

$$n = 254.5$$

$$n = 255$$

$$n = 255$$

3.3 NATURE AND SOURCES OF DATA

The primary and secondary sources of data collection will be effectively used for this work. The primary data will be collected with the use of questionnaire, observation and personal interview. Secondary data will be gotten from relevant published materials.

3.4 TECHNIQUES OF ANALYSIS

The technique of analysis will be both content and statistical. With regards to content, it will expose the available information on purely descriptive and analytical grounds.

Percentages and tables will be used to analyze the responses in order to know the percentage of those in favour of a particular question and those that are not.

3.5 ANTICIPATED PROBLEMS AND LIMITATIONS OF THE STUDY

Problems anticipated in the course of this work are

1. Delays in filling and returning questionnaires by respondents
2. Lack of co-operation of some top management staff, especially in the release of some documents termed official or confidential.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA.

4.0 INTRODUCTION

This important chapter deals with the analysis and discussion of data derived from responses to questions contained in the questionnaire.

The researcher used tables and percentages in the presentation and analysis of data respectively. In this method of data analysis, the total number of respondents to particular question represent a hundred percent (100%.

An answer to a question is expressed as a percentage of the total number of respondents in that particular question. The highest percentage of responses represent the majority opinion of the respondents. All the information gathered were structured into tables for onward interpretation of the results. Hence, the questionnaires were administered personally and oral interview

conducted to gather necessary information that will help the researcher in the study.

A total of one hundred and fifty-four (154) questionnaires were distributed out of which one hundred (100) were duly completed and responses received.

The responses obtained from the interviews and distributed questionnaires are presented, analysed and interpreted below:

4.1 PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

S/NO	QUESTION	RESPONSES	NO OF RESPONDENTS	PERCENT (%)
1	How long have you worked in your establishment?	2 – 3 years 4 – 6 years 6 – 8 years 8yrs & above	17 - 8 <u>75</u> <u>100</u>	17% 8% <u>75%</u> <u>100%</u>
	Total This shows that 75% of the respondents are old staff of the institutions. Hence they must have been used to the system.			
2	To which of these ranks do	Junior staff	8	8%

	<p>you belong?</p> <p style="text-align: center;">Total</p> <p>The analysis show that majority of the staff (58%) are senior staff of Accounts and Audit department. Hence they are in a better position to give better information about their organization.</p>	<p>Service staff</p> <p>Senior staff</p> <p>Mgt staff</p>	<p>-</p> <p>58</p> <p><u>34</u></p> <p><u>100</u></p>	<p>-</p> <p>58%</p> <p><u>34%</u></p> <p><u>100%</u></p>
3	<p>Do you have a clearly defined internal control system in your establishment?</p> <p style="text-align: center;">Total</p> <p>One hundred percent (100%) of the respondents agree that their institution has clearly defined internal control system.</p>	<p>Yes</p> <p>No</p>	<p>100</p> <p>-</p> <p><u>100</u></p>	<p>100%</p> <p>-</p> <p><u>100%</u></p>
4	<p>How adequate is the present system of internal control in your establishment for a</p>	<p>Very Adequate</p> <p>Adequate</p> <p>Inadequate</p>	<p>42</p> <p>58</p> <p>-</p>	<p>42%</p> <p>58%</p> <p>-</p>

	credible audit report of the organization? Total A higher percentage of the respondents agree that the internal control system in the organization is very adequate.	Very inadequate	- <u>100</u>	- <u>100</u>
5	What is the present staff of hierarchy and authorities? Total	Clearly defined Defined Undefined Quite undefined	58 34 8 <u>100</u>	58% 34% 8% <u>100%</u>
6	Do you agree that the management structure of the organization promote credible audit report of the financial statement? Total	Strongly agree Agree Disagree Strongly disagree	25 75 - - <u>100</u>	25% 75% - - <u>100</u>
7	In your own opinion, suggest other measurement that could help enhance the relevance and credibility of audit report in the			

	<p>organization?</p> <p>RESPONSE: 60% of the respondents maintained that in order to enhance a credible and relevant audit report, the auditors, whether internal or external should be allowed independence and maximum support by the management. The audit report should also be implemented to letter. 10% of the respondents were of the opinion that the application of management by objectives should be encouraged and audit report should go directly to the board of directors and not management first.</p>			
8	<p>Have you undergone any training programme since you joined your establishment?</p>	<p>Yes</p> <p>No</p>	<p>83</p> <p>17</p>	<p>83%</p> <p>17%</p>

	Total		<u>100</u>	100%
9	If No 8 above is yes, what kind of training were you given RESPONSE: Almost all the respondents (ie 100%) agree that they have undergone all or atleast one of the trainings mentioned	Overseas Institutional In-house On-the-job		
10	How relevant was the training to your responsibility in promoting credible audit report Total	Very relevant Impressive Unimpressive Extremely unimpressive	75 25 - - <u>100</u>	75% 25% <u>100%</u>
11	How will you rate the authority's performance vis-à-vis the credibility of the financial statement? Total	Very impressive Impressive Unimpressive Extremely unimpressive	8 84 8 - <u>100</u>	8% 84% 8% - <u>100</u>
12	Do you agree that the	Strongly agree	42	42%

	<p>use of computer software in the organization has enhanced the relevance and credibility of audit report.</p> <p>Total</p>	<p>Agree</p> <p>Disagree</p> <p>Strongly disagree</p>	<p>50</p> <p>8</p> <p>-</p> <p>-</p> <p><u>100</u></p>	<p>50%</p> <p>8%</p> <p>-</p> <p>-</p> <p><u>100%</u></p>
13	<p>For the purpose of auditing the financial statement of your establishment, and expressing an independent opinion? Who appoints (a) The external auditor (b) The internal auditor.</p> <p>RESPONSE: Majority of the respondents are of the opinion that the Board of directors appoint the external auditors while the management appoint the internal auditors</p>			
14	<p>Who determines the scope of the audit?</p> <p>a. The external auditor</p>			

	<p>b. The internal auditor</p> <p>RESPONSE: 90% of the respondents are of the opinion that the scope of the audit as regards the external auditor is statutorily defined while that of the internal auditor is determined by the management. Only 10% say that the internal auditors scope of work is determined by the board.</p>			
15	<p>What objectives are set for the purpose of audit reports?</p> <p>i. To show efficiency and economy of operation</p> <p style="text-align: center;">Total</p> <p>ii. To ensure the accounts comply with the applicable laws and regulations</p> <p style="text-align: center;">Total</p>	<p>Yes</p> <p>No</p> <p>Yes</p> <p>No</p>	<p>100</p> <p>-</p> <p><u>100</u></p> <p>100</p> <p>-</p> <p><u>100</u></p>	<p>100%</p> <p>-</p> <p><u>100%</u></p> <p>100%</p> <p>-</p> <p><u>100%</u></p>

	iii. To ensure that all necessary information and explanation for the audit are obtained.	Yes	100	100%
		No	-	-
	Total		<u>100</u>	<u>100%</u>
	iv. To ensure account are not misleading	Yes	100	100%
		No	-	-
	Total		<u>100</u>	<u>100%</u>
	v. To ensure that account show a true and fair view	Yes	<u>100</u>	<u>100%</u>
		No	-	-
	Total		<u>100</u>	<u>100%</u>
	vi. Have the objective been achieved in 14 above	Yes	92	92%
		No	8	8%
	Total		<u>100</u>	<u>100%</u>
	vii. Are there instances of non-compliances	Yes	58	58%
		No	42	42%
	Total	<u>100</u>	<u>100%</u>	

16	Who are the principal users of the auditor's report? RESPONSE: The management, the board of directors for decision making, the public, the government, customers, contractors, staff etc.			
17	Do the accounting information in the audit report show reliability	Yes No	100 -	100% -
	Total		<u>100</u>	<u>100%</u>
18	What are the results of Implementing the objectives of the audit report			
	i. Trust and confidence on the account	Yes No	100 -	100% -
	Total		<u>100</u>	<u>100%</u>
	ii. Efficiency and economy of operations	Yes No	100 -	100% -
	Total		<u>100</u>	<u>100%</u>
	iii. Achievement of	Yes	100	100%

	<p>programmed objectives</p> <p>Total</p> <p>RESPONSE: The analysis show that there is positive result of implementing the objectives of the audit report.</p>	No	- <u>100</u>	- <u>100%</u>
19	<p>What impact does the audit report have on the organization.</p> <p>Total</p>	<p>Positive</p> <p>Negative</p>	<p>100</p> <p>-</p> <p><u>100</u></p>	<p>100%</p> <p>-</p> <p><u>100%</u></p>
20	<p>Make any general comment on the relevance and credibility of audit report that you consider could enhance the success of this research work.</p> <p>RESPONSE:</p> <p>80% of the respondents insist that management do not always implement audit recommendations. Hence, management should turn a new leaf as regards this. 8%</p>			

	<p>of the respondents suggested a consistent application of accounting concepts as a means of achieving relevance and credibility of audit report. However, 12% of the respondents say that the auditor should be provided with enough job security and this should be made known to him for him to report independently. The reports should also be timely for its relevance.</p>			
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4.2 TEST OF HYPOTHESIS

HYPOTHESIS I

Ho: That the relevance and credibility of audit report in public sector organization is in doubt

Hi: That the relevance and credibility of audit report in public sector organization is not in doubt.

The statistical test is $\chi^2 = \sum \frac{(O_i - E_i)^2}{O_i}$

Where O_i = Observed frequency

E_i = Expected frequency

Total frequency

E_i = No of options/alternate responses

$E_i = \frac{O_i}{N} = \frac{100}{4} = 25$

$N = 4 = 25$

The level of significance used is 5% ie $= 0.05$

The degree of freedom (d.f) is given by $(k - 1)$ ie $d.f = k - 1$

where k = number of rows or columns

$d. f = k - 1$

$d. f = 4 - 1$

$d. f = 3$

Questions to test hypothesis 1

Question 6 & 17

Question 6: Do you agree that the management structure of the organization promote credible audit report of the financial statements?

TEST I

**TABLE I
RESPONSES TO TEST HYPOTHESIS I**

RESPONSES	O_i	E_i	(O_i-e_i)	(O_i-e_i)²	(O_i-e_i)²/e_i
Strongly agree	25	25	0	0	0.0
Agree	75	25	50	2500	100.0
Disagree	-	25	-25	625	25.0
Strongly disagree	-	25	-25	625	25.0
TOTAL	100	100	0	3750	150.0

Calculated value of $X^2 = 150.0$

Table/critical value of X^2 @ 0.05 Level of significance and at

d.f = 3 is 7.82

Calculated value 150.0 > 7.82 critical value

DECISION:

Since the calculated value of X^2 is greater than the critical value, we reject the null hypothesis and accept the alternative hypothesis. We therefore conclude that the relevance and credibility of audit report is not in doubt.

TEST II

Responses to test Hypothesis I

Question 17: Do the accounting information in the audit report show reliability.

The statistical test of $X^2 = \sum \frac{(O_i - e_i)^2}{e_i}$

where O_i = Observed frequency

e_i = Expected frequency

$$e_i = \frac{O_i}{N} = \frac{100}{2} = 50$$

$$N = 2$$

The degree of freedom is given by $(k - 1)$

Ie d.f = $k - 1$ where k = number of rows or column.

$$d. f = k - 1$$

$$d. f = 2 - 1$$

$$d. f = 1$$

The critical value @ 0.05 level of significance and @ d. f = 1 is given as $X^2 = 3.84$

Table II

Responses to test hypothesis I

RESPONSES	O _i	O _i	(O _i -e _i)	(O _i -e _i) ²	(O _i -e _i) ² /e _i
Yes	100	50	50	2500	50.0
No	-	50	-50	2500	50.0
TOTAL	100	100	0	5000	100.0

Calculated value = 100.0 while critical value = 3.84 comparing the test statistics with the critical value, $100.0 > 3.84$

DECISION:

We therefore reject the null hypothesis and accept the alternative hypothesis.

We conclude that the relevance and credibility of audit report is not in doubt.

HYPOTHESIS II

Ho: That the audit standard and procedures expected of statutory audit report in the public sector organization such as the ones under study has been compromised.

Hi: That the audit standard and procedures expected of statutory audit report has not been compromised.

The statistical test is $X^2 = \sum \frac{(O_i - e_i)^2}{e_i}$

e_i

where O_i = Observed frequency

e_i = Expected frequency

$e_i = \frac{\text{Total Frequency}}{\text{No of options}} = \frac{O_i}{N} = \frac{100}{2} = 50$

$N = 2$

The degree of freedom (d. f) is given by $(k - 1)$ ie d. f = $k - 1$

where k = number of rows or columns

$$d. f = k - 1$$

$$d. f = 2 - 1$$

$$d. f = 1$$

Question to test hypothesis II

Question 15 i, ii, iii, iv

What objectives are set for the purpose of audit reports?

TABLE III

Responses to test hypothesis II

RESPONSES	O_i	O_i	(O_i-e_i)	(O_i-e_i)²	(O_i-e_i)²/e_i
Yes	100	50	50	2500	50.0
No	-	50	-50	2500	50.0
TOTAL	100	100	0	5000	100.0

Calculated value = 100.0

Critical value = 3.84

Comparing the test statistics with the critical value, $100.0 > 3.84$

DECISION:

We therefore reject the null hypothesis and accept the alternative hypothesis.

We therefore conclude that the audit standard and procedures expected of statutory audit has not been compromised.

HYPOTHESIS III

Ho: That the measures put in place to curb fraudulent activities in public sector organizations through statutory audit report has not been enough.

Hi: That adequate measures has been made to curb fraudulent activities in public sector organizations.

The statistical test is $X^2 = \sum \frac{(O_i - e_i)^2}{e_i}$

where O_i = Observed frequency
 e_i = Expected frequency

$$E_i = \frac{\text{Total frequency}}{\text{No of options}} = \frac{O_i}{N} = \frac{100}{2} = 50$$

The degree of freedom (d.f) is given by $(k - 1)$ ie $d. f = k - 1$

where $k =$ Number of rows or columns

$$d. f = k - 1$$

$$d. f = 2 - 1$$

$$d. f = 1$$

Question to test hypothesis III

Question 3: Do you have a clearly defined internal control system in your establishment?

TABLE IV

RESPONSES	O_i	O_i	(O_i-e_i)	(O_i-e_i)²	90i-e_i)^{2/e_i}
Yes	100	50	50	2500	50.0
No	-	50	-50	2500	50.0
TOTAL	100	100	0	5000	100.0

Calculated value = 100.0

Critical value = 3.84

Comparing the test statistics with the critical or table value, 100.0
> 3.84

DECISION

We therefore reject the null hypothesis and accept the alternative hypothesis.

We conclude that there is a clearly defined internal control system which is capable of checking fraud at least to a minimum.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS.

5.1 SUMMARY OF FINDINGS

The researcher other presenting and analyzing the collected data arrived at the following findings:

1. From the two results of testing hypothesis I (see table I and Table II), it can be deduced that the relevance and credibility of audit report is never in doubt. The management structure of the organizations under study, promote credible audit report of the financial statements.

In addition, the accounting information in the audit report show reliability.

Nevertheless in-depth findings with question 7 reveal that in order to enhance the relevance and credibility of audit report in the organization, management should try as much as possible to give prompt and adequate attention to audit reports. In other

words management should implement the recommendations in the audit report promptly.

2. Results of Table III show that the objectives set for the purpose of audit report which includes the under listed has not been compromised. These objectives include;

- i. To show efficiency and economy of operation
- ii. To ensure the accounts comply with the applicable laws and regulations.
- iii. To ensure that all necessary information and explanations for the audit are obtained.
- iv. To ensure that account show a time and fair view.

The analysis of the collected data using the chi-square method of hypothesis testing, show that calculated value of X^2 stood at 100.00 while the table value at 3 degree of freedom with 5% level of significance stood at 3.84. As earlier analyzed, this shows that the null hypothesis was

rejected and the alternative accepted. All the respondents said yes to the options of question 15, I, ii, iii, & iv.

3. The Researcher also found out that adequate measure has been made to curb fraudulent activities in Power Holding Company of Nigeria, Enugu Zonal Office, University of Nigeria Teaching Hospital, Ituku Ozalla and the National Orthopaedics Hospital, Enugu through statutory audit report.

The result of testing hypothesis III show that calculated value of chy-square is 100.0 while the critical value is 3.84.

5.2 CONCLUSION

The following conclusions have been drawn from the relevant major findings of the study:

1. Though the relevance and credibility of audit report is not in doubt, its effect on the performance of the organizations under study were not encouraging. For instance, in one of the public sector organizations under study, the 2005 audit

report has just been released. This will definitely affect the relevance of the report. When audit report is given prompt attention, it will be relevant to the organization. This is because information that is not timely can never be useful or relevant to an organization. However, in addition to its relevance, audit report when given adequate and necessary attention ie (implementation), it becomes credible ie the users of audit report such as the public, government, customers, corporate entity etc will have trust and confidence on the report. There will also be efficiency and economy of operations in the organization which will lead to high performance and greater achievements. This is one of the objectives of audit report as is contained in our questionnaires (No 18 i & ii)

2. With a clearly defined internal control system in the organization, the organization will be safeguarded against possible financial loss due to fraud or errors. Where a good

system of internal control is in place and the auditor understands this, he can reasonably expect to carry out a valid audit. Adequate accounting records and efficient management is very necessary for a credible report.

3. Even when high auditing standards and procedures are laid down for public sector organizations such as the ones under study, It may not be strictly adhered to the letter.
4. In order to enhance a credible and relevant audit report, the auditors, whether internal or external should be allowed independence and maximum support by the management. As can be seen from the respondents (Question 13 of questionnaire), the external auditor are appointed by the board while the internal auditor are appointed by the management of the organization. The auditors remuneration are also determined and paid by the board. This will definitely impair the independence of the auditor and hence affect the credibility of the report. Suggestions from interview

conducted by the researcher reveal that the auditor should be appointed and paid by the parent ministry. For example, UNTH auditor should be appointed by the ministry of Health, Power Holding Company of Nigeria, Ministry of power. Their report should also go directly to the board and not management. This will at least accord the auditor some sense of independence and security which will enable him to discharge his duty with an unbiased mind.

5. There should also be a consistent application of accounting concepts as a means of achieving relevance and credibility of audit report.

In summary, for quality decisions therefore in the organization, the information derived from audit report should be relevant, timely and accurate. The more accurate and timely the information, the better the decisions and policies and hence the higher the performance.

5.3 RECOMMENDATIONS

In the light of the findings and the relevant conclusions of the study, the following recommendations have been made:

1. Audit report should be designed to comply with the statutory requirements of audit and of the organization concerned.
2. it should be maintained in a manner that will clearly identify the objectives and purposes for which funds have been received and expended.
3. Audit report should be written in a way that will facilitate the users of the report to readily understand the contents of the report for effective decisions and policy making. In other words, it should have, not just the audited organization in mind but also the users of the report.
4. Appropriate and adequate accounting and auditing training should be given to concerned staff of public sector organizations and professional accountants

employed for better knowledge, skill and a higher performance. This will enhance the quality of financial record for future audit work and hence lead to a credible report.

5. Bureaucracy should not be allowed to hinder the prompt and proper implementation of the recommendations of the audit report. Personnel found guilty of misappropriation should be shown the way out of the organization.

SUGGESTION FOR FURTHER RESEARCH

For a credible and relevant audit report, a lot of other factors could be investigated. For example, human resources management etc. The researcher therefore suggests the following topics for further study.

1. The impact of audit report on the operational performance of the organization.

2. The effect of motivation on human resources management in PHCN, UNTH and National Orthopaedics Hospital, Enugu.
3. The role of audit report in the achievement of the set objective of public sector organizations.
4. The effect of organizational structure in the efficiency of human resources utilization.

APPENDIX

QUESTIONNAIRE

Faculty of Business Administration,
University of Nigeria,
Enugu Campus.

15th September, 2010.

Dear Respondent,

This questionnaire, being presented for your completion, is purely for academic research purpose in partial fulfillment of the requirements for an award of MBA degree in Accountancy of the University of Nigeria.

It is designed to gather information on the relevance and credibility of Audit report in public sector organizations like your organization.

It is therefore my request that you sincerely answer these questions as the success of this work depends on your willingness to do so.

Thank you.

Yours sincerely,

Maduiké M. Ifeoma

Please, give answers to the questions below objectively and to the best of your knowledge. Tick as appropriate to reflect your response.

1. How long have you worked in your organization?

- a. 2 – 3 years ()
- b. 4 – 6 years ()
- c. 6 – 8 years ()
- d. 8 years and above ()

2. To which of these ranks do you belong?

- a. Junior staff ()
- b. Senior staff ()
- c. Management staff ()

3. Do you have a clearly defined internal control system in your establishment?

- a. Yes ()
- b. No ()

4. How adequate is the present system of internal control in your organization for a credible audit report of the organization.

- a. Very adequate ()
- b. Adequate ()

- c. Inadequate ()
- d. Very inadequate ()

5. What is the present staff hierarchy and authorities?

- a. Clearly defined ()
- b. Defined ()
- c. Undefined ()
- d. Quite undefined ()

6. Do you agree that the management structure of the organization promote credible audit report of the financial statements?

- a. Strongly agree ()
- b. Agree ()
- c. Disagree ()
- d. Strongly disagree ()

7. In your own opinion, suggest other measures that could help enhance the relevance and credibility of audit report in the organization.

.....
.....

8. Have you undergone any training programme since you joined the organization?

a. Yes ()

b. No ()

9. If number 8 above is yes, what kind of training were you given?

a. Overseas training ()

b. Institutional training center ()

c. In-house training ()

d. On-the-job training ()

10. How relevant was the training to your responsibility in promoting credible audit report?

a. Very relevant ()

b. Relevant ()

c. Irrelevant ()

d. Very irrelevant ()

11. How will you rate the Authority's performance vis-à-vis the credibility of the financial statement?

a. Very impressive ()

b. Impressive ()

c. unimpressive ()

d. Extremely unimpressive ()

12. Do you agree that the use of computer software in the authority has enhanced the relevance and credibility of audit report?

- a. Strongly agree ()
- b. Agree ()
- c. Disagree ()
- d. Strongly disagree ()

13. For the purpose of auditing the financial statement of your organization and expressing an independent opinion, who appoints

2. The External auditor

.....

3. The internal auditor

.....

14. Who determines the scope of the audit?

- a. The External auditor ()
- b. The internal auditor ()

15. What objectives are set for the purpose of audit reports?

A. To show efficiency and economy of operation.

- i. Yes ()
- ii. No ()

B. To ensure the accounts comply with applicable laws and regulations

- i. Yes ()

ii. No

C. To ensure that all necessary information and explanations for the audit are obtained.

i. Yes ()

ii. No ()

D. To ensure account are not misleading

i. Yes ()

ii. No ()

E. To ensure that account show a true and fair new.

i. Yes ()

ii. No ()

F. Have the objectives been achieved in 14 above?

i. Yes ()

ii. No ()

G. Are there instances of non-compliance?

i. Yes ()

ii. No ()

16. Who are the principle users of the auditors report?

.....
17. Do the accounting information in the audit report show reliability.
.....

18. What are the results of implementing the objectives of the audit report

A. Trust and confidence on the account

i. Yes ()

ii. No ()

B. Efficiency and economic operations?

i. Yes () ii. No ()

C. Achievement of programmed objective

i. Yes ()

ii. No ()

19. What impact does the audit report have on your organization

a. Positive ()

b. Negative ()

20. Make any general comment on the relevance and credibility

of audit report that you consider could enhance the success of

this research work
.....
.....

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